

Case Studies on Fashion Retailing

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Case studies are intended to be used as a basis for class discussion rather than to illustrate either effective or ineffective handling of a management situation.

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OVERVIEW

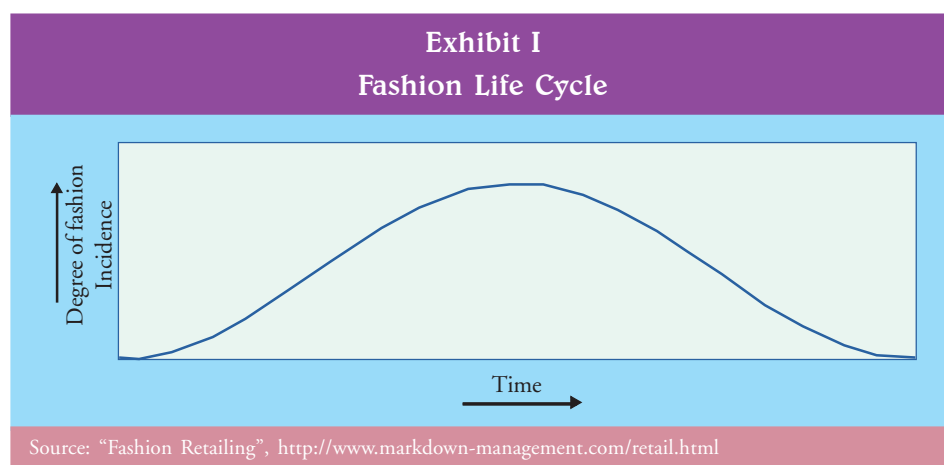
Humankind has hardly remained unfashionable on earth. Right from loin-clothes to cloaked garbs – and then coats, gowns and accessories in the early 19th century – fashion has had many seasons. It was largely linked to elite fantasies and remained so till mid-1850s, when a professional called fashion designer came up. Paris-based British designer, CF Worth was the first to be tagged so. First it was Paris that reigned supreme, but London and Milan soon caught up, creating their own fashion niche.

Fashion becomes unstylish if it doesn't keep changing. By now, there are a galaxy of designs and customer segments. Not a century back, in the 1950s, the fashion industry was abuzz about *haute couture* (a French term for elevate dressmaking). It meant exclusive high-quality clothes, cut and sewn with meticulous precision – obviously for elite and wealthy clients. Then came *prêt-à-porter*' (ready-to-wear) – not for individual customers, but great care was given to choice and cut of fabric.

Fashion industry soon was visibly altered. Fashion houses migrated away from their homeland and set up new retail locations for revenues – mass retailers rapidly emerged. Fast-changing fads and ever-rising customer demand busied fashion merchandisers and retailers.

Everyone doesn't go for *haute couture*; most want reasonably priced fashions.

Zara, Valentino, Gucci, etc, have realised the importance of this critical mass through faster and efficient value chain processing, and making inexpensive apparel. Zara, for instance, is known to be cheap without being nasty. Speciality retailers are realising the criticality of inventory planning – as uncertain demand, shrinking selling seasons, longer lead times lead to leaner profit margins. Demand for fashion apparel runs through a limited fashion season – representing the introduction, growth, maturity and decline phases of the fashion lifecycle [Exhibit I]. Demand at each price in each period of the season is uncertain and the sensitivity of demand to price varies during the season. Goods left over at the end of the fashion season fall drastically in value because demand practically disappears so, retailers take inventory planning decisions to either outsource or produce in-house.



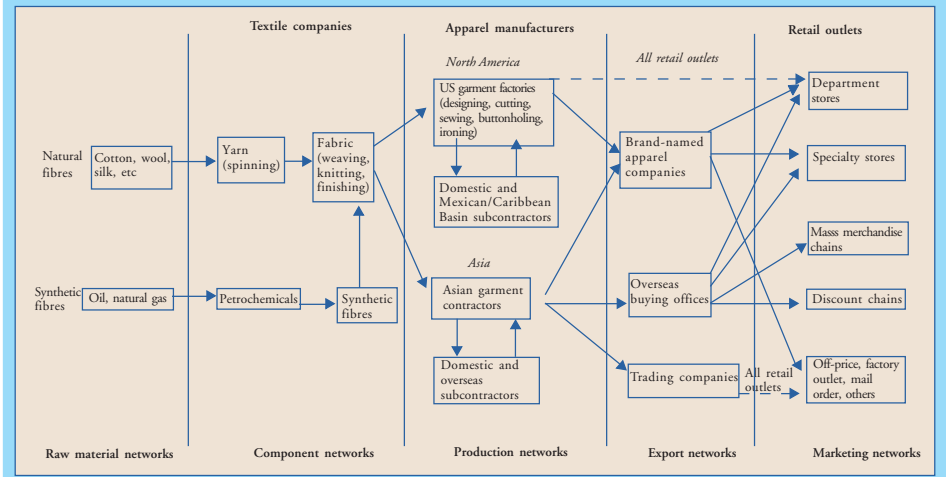
Inventory planning forms part of every aspect of the value chain whose importance for the retail industry in general and retailers in particular – may be analysed.

For this purpose, let us consider just the apparel industry that comprises three important units: textile companies (yarn spinning, weaving, knitting, finishing), apparel makers (designing, cutting, sewing, ironing, etc.) and retail outlets [Exhibit II]. Apparel companies can either be vertically integrated, forward-integrated (like Zara, Gap) or mere retailers (like Wal-Mart). The value chain of haute couture, ready-to-wear and mass retailers [Exhibit III] runs into different stages – procurement of textiles, finishing (textile), designing, cutting, sewing, internal logistics, washing, ironing, central warehouse, marketing, logistics and distribution, point of sales and finally sales. Not all retailers carry out all the processes in-house; many even outsource their operations.

While designers want to fit in with the fads, retailers are raving for market share. There are mass retailers like Wal-Mart as well as exclusive stores like Gap, A&F, H&M. Economies of scope are wide and store formats are even wider: merchandise stores to exclusive women or men's wear and discount stores to high-end fashion labels – targeting various customer segments. Market forces – rivals, government regulation, suppliers, buyers, substitutes and potential entrants – also affect the apparel retailers' value chain and their business model decisions. The value chain and competitive forces help know how fashion industry works and how a small change in fashion would cut into the retailers' profitability.

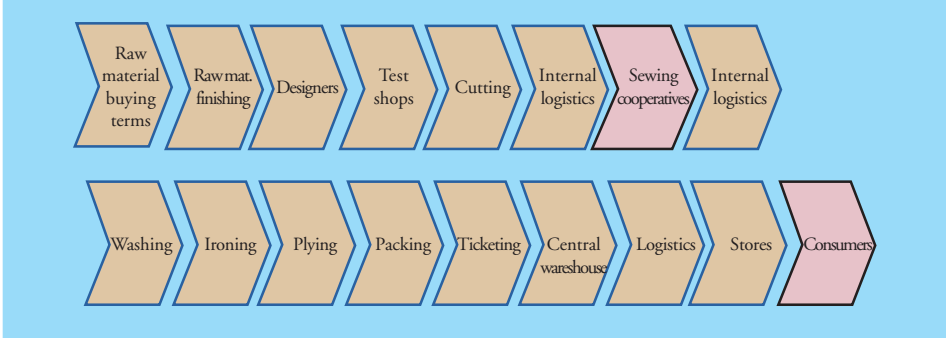
This book is a kaleidoscope of different case studies – providing insights into fashion and apparel industry dynamics and their different strategies – be it Gucci's revival strategies, Versace's and Louis Vuitton's image makeover, Zara's inventory strategies or Saks' market entry strategies. Business models of European and US fashion retailers are outlined; spotlight is also on in-house manufacturing and outsourcing, and the risks of retailers' over expansion. Prominent family-run fashion businesses are also discussed.

Exhibit II The Value Chain of Apparel Industry



Source: Gereffi Gary and Memedovic Olga, "The Global Apparel Value Chain: What Prospects for Upgrading Developing Countries?", <http://www.inti.gov.ar/cadenasdevalor/ApparelUNIDOnew2Feb03.pdf>, 2003

Exhibit III Value Chain of a Fashion Retailer



Source: Harle Nicolas, et al., "Marks & Spencer and Zara: Process Competition in the Textile Apparel Industry", *INSEAD*, 2002 [Ref. No. 602-010-1]